U.S. Senate Special Committee on Aging

"Preparing for the Baby Boomers Retirement: The Role of Employment"

July 25, 1997

9:30 a.m. to 11:30 a.m.

Dirksen Senate Office Building, Room 124

Introduction by Dallas L. Salisbury,

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Good morning. It is my pleasure as moderator to welcome you.

This forum is devoted to examining the impact of the impending retirement of the baby boom generation on America's work force. It will also explore what the implications will be if members of my generation attempt to work longer than age 62 to 65. There are good reasons to assume that some will want to and many will need to do so.

First, the age of normal retirement for full benefit payments from Social Security is scheduled to rise to age 67. Behavioral research makes it clear that the retirement decision is heavily influenced by the availability of annuity income and/or assets in a lump sum.

Second, the age of normal retirement for Medicare may be increased in the future as well. This Congress has moved that issue further along than at any time in the past, and the combination of demographics and health costs assures that the issue will continue to be on the reform alternatives agenda. EBRI/Gallup surveys find that the availability of health insurance is even more important than an annuity for many individuals as they decide when to retire.

Third, public and private employers have modified the terms under which they make health insurance available to their retirees. Many now simply allow the individual access for purchase, but pay no part of the premium. The reduction of such insurance prior to age 65 will also serve to provide an incentive for individuals, particularly those with some health problems, to work as long as possible.

Fourth, public and private employers have been making changes in the pension system that offer employees more opportunity but also subject them to more risk. The Federal Government, for example, acted in 1984 to dramatically reduce the value of the defined benefit pension plan for future hires and introduced a matched savings plan. The combination of the two plans provides the opportunity for workers to have more retirement income than under the old system, but it also could provide significantly less if the individual either chooses not to contribute to the savings plan or experiences poor investment results. Private employers have been increasing the emphasis on employee contribution matched savings plans as well. For most workers--those who spend far less than a full "career" with one employer--this new system provides the opportunity for more retirement income than the old system, but only if they contribute and only if they preserve all funds as they move to a new employer. We know that the availability of income influences the retirement decision, but we are only beginning to understand the impact of large lump-sum distribution availability on retirement timing.

Fifth, individuals are being told through every medium that they should expect to live a long time.

Medical advances are possible that could add many years to the life expectancy prospect. This information is complemented by constant media emphasis on the need to save and to plan for retirement. Whether it be financial columns, financial services industry advertisements, programs on retirement planning on public television, the Internet, financial planning software on the PC, or payroll stuffers, the message that "your retirement depends on you" is everywhere. This has not been the case for any prior generation. It is likely to impact behavior, with many people deciding to work longer.

Sixth, even with more individuals earning pension rights than at any time in history, relative short job tenures mean that benefits will be relatively small unless individuals save at relatively high rates. While education is causing about one-third to do this, another third say they are saving nothing and the final third is saving far less than will be needed to retire. Furthermore, tax data show that over two-thirds of those who are paid a preretirement age lump-sum distribution do not save it for retirement but spend it instead. This suggests an added problem in terms of retirement timing. Although many of these individuals would not have had any benefit in an earlier time, when they spend a distribution they are assuring that they will be un-pensioned, for that employer, by their own behavior. This will undoubtedly lead many to the necessity of working at least until they have full Social Security eligibility, and possibly longer. Adding to this need to work are the historically high levels of debt that individuals are carrying and a stated desire to keep their present home rather than sell it to provide money for retirement.

The issue of retirement age has been a subject of ongoing debate in this nation and around the world. *Nation's Business* carried a lead article in 1971 titled "The Early Retirement Time Bomb," worrying that we could not financially afford early retirement pension costs or afford the loss of workers. During the 1970s a great deal was written on the subject. In 1977, Harold Sheppard and Sara Rix, in *The Graying of Working America: The Coming Crisis of Retirement-Age Policy*,[(1)],[(2)] warned that "we had better re-think our retirement-age policies *now*, before new social realities surprise a generation of workers." Congress did part of that job in 1983 when it took action to increase the retirement age for full Social Security benefits. EBRI/Gallup surveys indicate, however, that the affected public is not yet aware that this has occurred and that people will have to work longer to get full SSA benefits. A 1978 book by Frank Kleiler asked, *Can We Afford Early Retirement*, and concluded that changes would have to be made to keep people working longer. A 1980 book by James Jorgensen, *Retirement and Why You Can't Afford It: The Graying of America*,[(3)] suggested that "in less than 20 years it may be financially impossible for anyone to retire." Jorgensen was a bit too pessimistic, it would now seem, but his analysis of the implications of the growing aged population is nonetheless compelling. A recent work (1996), *Gradual Retirement in the OECD Countries,*[(4)] edited by Lei Delsen and Genevieve Reday-Mulvey, builds on conferences and publications of the Geneva Association and its research program on work and retirement. The Geneva Association introduced the concept of a "fourth pillar" consisting of many years of part-time work, i.e., gradual or phased retirement. This concept is effectively documented for the United States by the "bridge-job" research of Professor Joe Quinn, of Boston University.

The results of many of these factors are already showing up in survey data. In a recent summary article, Quinn documented increasingly high rates of "bridge jobs" and part-time work between the time individuals leave the job of longest tenure and actually retire. Based on trend lines, Quinn suggests that this behavior will continue to grow over time. Will the jobs be there? If individuals continue to work at later ages, what will the implications be for younger workers? Will the economy grow fast enough to make it essential that individuals work longer? Our two panels will explore these questions, and others, and you will have the opportunity to engage in a dialogue with the panelists.

1. [1] Sheppard, Harold L. and Sara E. Rix, *The Graying of Working America: The Coming Crisis of*

Retirement-Age Policy (New York: The Free Press, 1977).

2. [2] Kleiler, Frank M., *Can We Afford Early Retirement?* (Baltimore, MD: Johns Hopkins University Press, 1978).

3. [3] Jorgensen, James, *Retirement and Why You Can't Afford It: The Graying of America* (New York: The Dial Press, 1980).

4. [4] Delsen, Lei and Genevieve Reday-Mulvey, *Gradual Retirement in the OECD Countries* (England: Dartmouth Publishing Company, 1996).